

Although interest rates are near historical lows, refinancing of the Agency's 2007 Tax Allocation Bonds ("2007 Bonds") is not economical at this time. There are several reasons for this as discussed below:

- **The 2007 Bonds Cannot Be Redeemed Until 2017** – Like most bonds, the 2007 Bonds cannot be redeemed (i.e. paid off in full) until 2017. The Agency could still prepay the 2007 Bonds today through a refinancing. However, the Agency would have to issue enough bonds to cover not only the bond principal due in 2017, but also all the interest payable on the bonds until 2017. To prepay the 2007 Bonds, the Agency would have to borrow the money at about 4.30% much of which would be held in escrow earning less than 0.55%. This negative carry is a significant cost that currently makes the refinancing uneconomical. The closer the Agency gets to 2017 to execute the refinancing, the smaller the negative carry will be.
- **There is a 2% Prepayment Penalty** – The 2007 Bonds require the Agency to pay a 2% prepayment penalty if the bonds are fully redeemed in 2017. This adds to the cost of the refinancing. The prepayment penalty is gradually reduced (1% per annum) and becomes zero in 2019.
- **Existing Rates on the 2007 Bonds are Relatively Low** - Existing interest rates on the 2007 Bonds are relatively low. For example, the Agency pays 5.0% for a portion of the 2007 Bonds that matures in 2037; if refinanced today the rate would still be 4.8%. Interest rate savings are not significant at this time. However, assuming that rates remain at today's low levels, there may be an opportunity to achieve greater interest rate savings in the near future.

If refinanced today, the 2007 Bonds (\$19.59M outstanding) would produce \$3.2M of negative savings. In order to produce \$600K of positive savings, interest rates would have to improve (decrease) by 1.85%, which is not likely based on today's low rates.